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I.C.C. DOCKET NO. 01-0050

Exhibit No. 1

Witness P. J. A.

Date 4-19-01 Reporter T. G.

Direct Testimony of

Erin L. Nicholas

1 Q. Please state your name, occupation and business address
2 for the record.

3 A. My name is Erin L. Nicholas. I am a Regulatory Analyst
4 for Utilities, Inc. (UI) and subsidiaries, including
5 Westlake Utilities, Inc. (WUI). My business address in
6 2335 Sanders Road, Northbrook, Illinois.

7

8 Q. Please state your professional and educational
9 background and experience.

10 A. I have been employed by UI since 1996. Since that time
11 I have been involved in both the accounting and rate-
12 making aspects of the utility business. I have been
13 responsible for rate filings in Florida, New Jersey,
14 North Carolina, Pennsylvania and Virginia.

15

16 I earned a Bachelor of Business Administration degree
17 in accounting from the University of Notre Dame in
18 South Bend, Indiana. I am currently enrolled in the
19 Masters of Business Administration Program at Kellogg
20 Graduate School of Management at Northwestern

1 University in Chicago, Illinois. I am a Certified
2 Public Accountant and I have attended the NARUC Utility
3 Rate Seminar as well as other related independently
4 sponsored seminars.

5
6 **Q. Please explain your job responsibilities at Utilities,**
7 **Inc.**

8 A. My responsibilities include: financial analysis of
9 individual subsidiaries of UI, preparation of
10 applications for rate relief, facilitation of
11 commission audits, and the submission of financial
12 testimony and schedules to support a request for an
13 increase in rates.

14
15 **Q. Please describe Utilities, Inc.**

16 A. UI, the parent company of WUI, has been involved in the
17 water and sewer industry for over 35 years. UI is a
18 privately held company that owns approximately 76
19 operating companies. These facilities are spread
20 throughout 16 states including: Illinois, Arizona,
21 Florida, Georgia, Indiana, Louisiana, Maryland,
22 Mississippi, North Carolina, Nevada, New Jersey, Ohio,
23 Pennsylvania, South Carolina, Tennessee, and Virginia.

24
25 **Q. Please describe Westlake Utilities, Inc.**

1 A. WUI is a wholly owned subsidiary of UI. UI is in the
2 process of incorporating WUI under the laws of the
3 State of Illinois. Because this new subsidiary had
4 not been formed at the time the purchase agreement was
5 signed, concurrent with the approval to purchase, UI
6 requests permission to assign the rights under the
7 agreement to this new corporation. A copy of the
8 articles of incorporation will be submitted as a late
9 filed exhibit once it is obtained.

10
11 WUI will provide water and sewer service to the
12 expected 716 water and sewer customers, including the
13 existing 103 customers, in the Westlake Village
14 subdivision near Rockford in Winnebago County,
15 Illinois.

16
17 The system is situated approximately 22 miles west of
18 Great Northern Utilities, Inc. and approximately 15
19 miles east of Northern Hills Water and Sewer Company.
20 The utility system is approximately two years old. WUI
21 requests the Commission to grant to it a Certificate of
22 Public Convenience and Necessity to operate and
23 maintain the water and sewer system and to engage in
24 the business of furnishing public utility water and
25 sewer service in the Westlake Utility Service Company's

1 service area. In addition, WUI requests that the
2 current certificates held by Westlake Utility Service
3 Company be canceled. WUI further requests that this
4 area be defined in the Order entered in this proceeding
5 and that the Certificate of Public Convenience and
6 Necessity be effective from and after the closing date
7 of the purchase transaction.
8

9 **A. Will the proposed transfer adversely effect the**
10 **customers?**

11 A. No. WUI intends to continue Westlake Utility Service
12 Company's public utility business in a professional
13 manner. The business will be operated as a subsidiary
14 of UI. As such, the utility will be operated within
15 the long-term goal of providing high quality water and
16 sewer service. To accomplish this, the facilities will
17 be maintained to a high standard, certified operators
18 will be employed and necessary capital expenditures
19 will be made.
20

21 **Q. Is the proposed transfer in the public interest?**

22 A. Yes, this transfer is in the best interest of the using
23 and consuming public. UI has over 35 years of
24 experience in the utility business. UI was formed in
25 1965 with the objective of acquiring small water and

1 sewer companies. These companies are often troubled
2 and undercapitalized. They are primarily developer-
3 owned with little experience in operating utilities.
4 UI provides safe and reliable water and sewer service
5 to approximately 233,000 customers in 16 states
6 resulting in significant operational economies of
7 scale. WUI's customers will benefit from these economies
8 of scale and the level of expertise gained by their
9 affiliation with UI. While operating only water and
10 sewer systems, UI personnel have the ability to meet
11 the challenges of the rapidly changing utility
12 industry. In addition, UI has both the regulatory
13 experience and financial wherewithal to ensure
14 consistent compliance with environmental protection
15 regulations. UI's experience in operating water and
16 sewer utilities will provide depth to WUI on both a day
17 to day basis as well as during emergencies. For these
18 reasons, the public interest would be best served by
19 the transfer of the water and sewer facilities to WUI.

20
21 **Q. Does Westlake Utilities, Inc. wish to enter into the**
22 **service contract with Water Service Corp.?**

23 **A.** Yes, it does. The Commission approved the existing
24 contract for Water Service Corp. (WSC) and all of UI's
25 Illinois subsidiaries on March 14, 1979. This

1 agreement was slightly amended and again approved by
2 the Commission in Docket No. 94-0157. The Order states
3 that Staff recommends that the service agreement method
4 utilized to allocate costs be reviewed for
5 reasonableness and appropriateness in subsequent rate
6 cases, and that in all other respects, Staff supported
7 Commission approval of the amendment. Detail regarding
8 the amended service agreement can be found in that
9 docket. Please see a copy of the WSC agreement
10 attached as **ELN Exhibit 1**.

11
12 **Q. Please describe the relationship between Utilities, Inc.**
13 **and Water Service Corp.**

14 A. WSC is the affiliated service company that provides
15 centralized billing, accounting, data processing,
16 engineering, management, and regulatory services for
17 the greater than 350 water and wastewater systems
18 supported by the approximately 76 operating companies
19 held by UI, including WUI.

20
21 One of the primary benefits of the WSC agreement will
22 be WUI's access to a large pool of human resources from
23 which to draw upon. As indicated above, there are
24 experts in various areas such as construction,

1 engineering, operations, accounting, regulation, data
2 processing, customer service, etc.

3

4 **Q. Does Water Service Corp. charge a management fee or**
5 **profit for these services?**

6 A. No, it does not.

7

8 **Q. How are costs assigned to the individual companies?**

9 A. Pursuant to the approved contract, wherever practical,
10 the costs of these essential services are typically
11 assigned directly to the company that benefits from the
12 service provided. However, costs that cannot be
13 identified to a specific company are allocated to the
14 operating companies primarily based on the number of
15 customers served. This methodology has been in use and
16 accepted by each affected regulatory jurisdiction for
17 many years.

18

19 **Q. How will the Water Service Corp. allocations change as a**
20 **result of this acquisition?**

21 A. The addition of WUI to the UI group of companies will
22 currently result in a 0.085% allocation to WUI and a
23 very insignificant decrease of customer allocation
24 percentages to all other utilities, less than a fraction

1 of one percent. This is shown on the attached **ELN**
2 **Exhibit 2**, page 2 of 2.

3
4 **Q. Will the system be operated using existing personnel of**
5 **Water Service Corp.?**

6 A. It will for a while. However, it is expected that WSC
7 will need to hire a part-time operator to work between
8 two and two and a half days per week to assist mostly
9 in handling UI's Rockford area systems; including WUI,
10 Great Northern Utilities, Inc., Northern Hills Water
11 and Sewer Company and Wildwood Water Service Company.
12 The additional operator will not be hired until
13 sometime after transfer approval is granted for both
14 WUI and Wildwood Water Service Company.

15
16 Currently WSC employs approximately 11 full-time
17 Illinois operating personnel. This will provide depth
18 to WUI. Should an employee become ill or leave the
19 area on vacation, another employee can be brought in.
20 In addition, in emergencies additional staff will be
21 made available.

22
23 **Q. With respect to savings or additional costs that will be**
24 **realized due to the merger, state whether the savings or**
25 **costs will be passed to rate payers.**

1 A. The amount of any additional expense or savings is
2 unknown since we are not operating the system at this
3 time. However, cost savings are expected to occur as a
4 result of WUI's affiliation with UI. UI's group of
5 companies maintains economies of scale (as discussed
6 above) and has national purchasing power on
7 expenditures such as insurance, vehicles and meters,
8 which result in lower costs to ratepayers. Furthermore,
9 UI has access to capital for improvements and expansion
10 at reasonable rates.

11
12 Any cost savings and/or additional prudent expenses
13 brought about by this merger will be passed on to the
14 rate-payers. WUI will agree to review operating
15 expenses within two years from the date of an order
16 granting approval of the transfer of the assets of
17 Westlake Utility Service Company to WUI. WUI will
18 submit its findings to Staff to determine whether the
19 existing rates are fair and reasonable.

20
21 Q. With respect to the costs incurred to effect the
22 merger, please quantify them. Also please provide the
23 accounting treatment and state whether Utilities, Inc.
24 plans to pass the cost to rate payers.

1 A. The total costs expected to be incurred to complete the
2 closing and approval process of the Purchase Agreement
3 between Westlake Utility Service Company and WUI is
4 estimated at \$6,500. This amount includes the cost
5 associated with incorporating WUI as well as the costs
6 associated with preparing and filing the petition,
7 testimony and data requests. This amount will be coded
8 to organization expense, and will be included in rate
9 base.

10
11 **Q. Is Westlake Utilities, Inc. proposing a rate change at**
12 **this time?**

13 A. No, WUI proposes to provide water service pursuant to
14 the rates that are currently in effect in the service
15 area, subject to any changes hereafter approved by the
16 Commission. WUI and ICC Staff have agreed to review
17 the rates within two years following approval of the
18 proposed transfer, after WUI gains an accurate
19 indication of the annualized costs of providing safe
20 and adequate service within this territory, under the
21 proposed operating structure (as a subsidiary of UI).
22 Preceding this rate review, WUI will continue providing
23 all services currently provided by Westlake Utility
24 Service Company without interruption or material
25 change.

1

2 The Company, within this proceeding, will also file
3 both water and sewer tariffs under the name of WUI to
4 establish rules, regulations and terms and conditions
5 of service. These tariffs will be included as late-
6 filed exhibits. Tariffs are expected to be filed after
7 the ICC has completed revisions on its water and sewer
8 model tariffs. The Company anticipates working with
9 Roy King of the ICC Staff to develop agreed upon water
10 and sewer tariffs. Westlake Utility Service Company
11 does not currently have an approved tariff on file with
12 the Illinois State Commerce Commission.

13

14 **Q. Should the proposed transfer be approved by the**
15 **Commission?**

16 A. Yes. The transfer is in the best interest of the
17 customers as noted above.

18

19 **Q. Does this conclude your testimony?**

20 A. Yes, it does.